



Photo: William Square, 235 William Street, Northbridge WA



Photo: 8 Central Avenue, Eveleigh NSW

# Centuria Metropolitan REIT

## Acquisitions and Equity Raising

ASX:CMA 18 September 2019

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# Centuria

Not for release to US wire services or distribution in the United States

# Agenda

1. Executive Summary
2. The Acquisitions
3. CMA Post Acquisitions
4. Equity Raising



# Transaction overview



## Acquisitions

- Centuria Property Funds Limited (**CPFL**), as Responsible Entity of Centuria Metropolitan REIT (**CMA**), has entered into agreements to acquire interests in two A-grade office properties in fringe CBD locations in Sydney and Perth (the **Acquisitions**) for a total purchase price of \$380.5 million<sup>1</sup> (excluding costs)

Properties	State	Interest	Purchase price <sup>1</sup>	Cap rate	NLA (sqm)	WALE (yrs) <sup>2</sup>	Occupancy <sup>3</sup>
8 Central Avenue, Eveleigh <sup>4</sup>	NSW	50%	\$191.0m	5.4%	36,570 <sup>5</sup>	8.5	100%
William Square, Northbridge	WA	100%	\$189.5m	6.4%	21,765	7.7	100%
<b>Total / weighted average</b>			<b>\$380.5m</b>	<b>5.9%</b>	<b>58,335</b>	<b>8.1</b>	<b>100%</b>



## Equity raising

- To partially fund the Acquisitions, CMA is undertaking an underwritten<sup>6</sup> \$273 million equity raising at an issue price of \$2.86 per security (the **Equity Raising**), comprising:
  - A 1 for 10 accelerated non-renounceable entitlement offer to raise \$102 million (**Entitlement Offer**)
  - An institutional placement to raise \$141 million (**Institutional Placement**)
  - A conditional placement of \$30 million to Centuria Capital Group (**CNI**), which is subject to CMA securityholder approval (**Conditional Placement**)
- CNI, CMA's largest securityholder, has committed to take up \$37.5 million under the Equity Raising, comprising \$30.0 million under the Conditional Placement and \$7.5 million in the Entitlement Offer

1. CMA's interest  
2. By gross income  
3. By area

4. The acquisition of 8 Central Avenue requires approval from CMA securityholders via an ordinary resolution and approval from Centuria 8 Central Ave Fund unitholders via a special resolution

5. 100% of NLA

6. The Equity Raising is underwritten other than in respect of the Conditional Placement

## Transaction overview (cont'd)



### Securityholder approval

- The 50% interest in 8 Central Avenue is being acquired from Centuria 8 Central Ave Fund, a closed-end unlisted fund managed by CPFL which has reached the end of its investment term<sup>1</sup>
- Approval from CMA securityholders via an ordinary resolution is required for the:
  - Acquisition of 8 Central Avenue under Chapter 2E and listing rule 10.1, as the vendor is a related party of CMA
  - Conditional Placement to CNI, a related party of CMA, under listing rule 10.11
- The meeting of CMA securityholders is expected to take place on Tuesday, 29 October 2019 and a separate Notice of Meeting and Explanatory Memorandum will be sent to CMA securityholders



### Conservative gearing

- Pro forma gearing is forecast to be 34.9%<sup>2</sup>
- Following the budgeted divestment of 483-517 Kingsford Smith Drive, Hamilton QLD, pro forma gearing is forecast to reduce to approximately 32%<sup>3</sup>



### FY20 guidance reaffirmed

- Including the impact of the Acquisitions and Equity Raising, CMA reaffirms FY20 guidance previously provided:
  - Funds from operations (**FFO**) of 19.0 cents per security<sup>4</sup> (**cps**), reflecting a 6.6% yield on the issue price
  - Distribution of 17.8 cps, reflecting a 6.2% yield on the issue price

1. The acquisition of 8 Central Avenue also requires approval from the Centuria 8 Central Ave Fund unitholders via a special resolution  
 2. As at 30 June 2019 adjusted for the impact of the Acquisitions and Equity Raising. If the acquisition of 8 Central Avenue and the Conditional Placement do not proceed, CMA expects pro forma gearing to be 28.3%  
 3. Assumes 483-517 Kingsford Smith Drive, Hamilton, QLD is sold for the current book value  
 4. Assumes the acquisition of 8 Central Avenue and the Conditional Placement proceed. If these do not proceed, CMA expects FY20 FFO to be 18.7 cps



# Strategic rationale

1

## High quality, strategically located assets

**A-grade office assets in fringe Sydney and Perth CBD locations** near key transport infrastructure and retail amenities

8 Central Avenue consolidates CMA's **footprint in key Sydney metropolitan markets**

William Square increases **exposure to Perth as market conditions improve** and provides an attractive value spread to comparable quality properties on the East Coast

2

## Enhances CMA's portfolio composition

Acquisitions have a WALE of 8.1 years<sup>1</sup> and **extend CMA's portfolio WALE to 4.8 years<sup>2</sup>**

**Introduces a number of new high quality tenants to CMA's portfolio** and increases the proportion of Government tenant income from 11% to 20%<sup>1</sup>

**New or recently refurbished assets** with 8 Central Avenue completed in 2010 and William Square having undertaken a major recent refurbishment

3

## Positions CMA for further growth

Acquisitions underpinned by structured rental growth with **fixed rental reviews of 3% p.a. or greater across 90% of income**

Enhances CMA's scale and liquidity, improving the potential for **S&P/ASX 200 Index inclusion**

Continues to position CMA as **Australia's largest pure play office REIT** with a \$1.8 billion portfolio<sup>2</sup> of quality office assets

1. By gross income  
2. Assumes the acquisition of 8 Central Avenue proceeds

## 8 Central Avenue, Eveleigh NSW



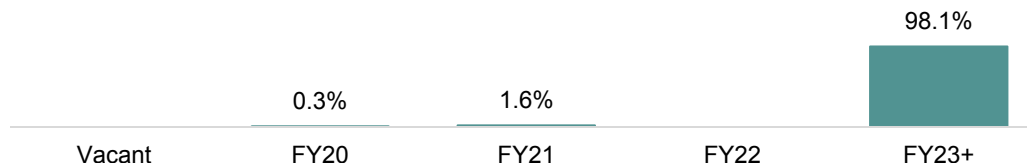
Ownership	50%
Purchase price <sup>1</sup>	\$191.0m
Capitalisation rate	5.4%
Occupancy (by area)	100%
WALE <sup>2</sup>	8.5 years
NLA <sup>3</sup>	36,570 sqm
Site area	17,269 sqm
NABERs rating	5.0 Star NABERs Energy

1. CMA's interest
2. By gross income
3. 100% of NLA
4. Includes Pacific Magazines Pty Ltd

### Key characteristics

- A-grade office building completed in 2010
- The asset comprises 10 upper office levels including multiple television broadcasting / recording studios; a ground level lobby, café and retail suite; and basement and mezzanine level parking (700 cars)
- The building is 100% occupied with 87% of income underpinned by ASX-listed, government or national tenants

### Lease expiry profile<sup>2</sup>



### Major tenants

Tenant	NLA (sqm)	Gross income	% of income	Rent review	Lease expiry
Seven Network <sup>4</sup>	15,086	\$4.3m	38%	3.50%	Dec-29
State Government (NSW)	7,710	\$2.9m	26%	3.00%	Nov-25
NEP Australia	6,870	\$1.5m	13%	CPI+0.50%	Dec-34
Cancer Institute (NSW)	3,006	\$1.2m	11%	3.00%	Oct-22

# 8 Central Avenue, Eveleigh NSW (cont'd)

## Location

- Located within the 'South Eveleigh Precinct', 4km south of the Sydney CBD
- Situated 900 metres from Redfern station, Sydney's 6<sup>th</sup> busiest train station with over 30,000 entries and exits per day
- Features a large 17,269 sqm site located in a rapidly gentrifying area within close proximity to Sydney University and Newtown Entertainment Precinct
- The adjacent development, leased to Commonwealth Bank of Australia, is expected to bring a workforce of ~10,000 to the precinct, with the first two buildings recently completed and a third targeting completion in FY20



- 8 Central Avenue, Eveleigh
- Sydney CBD
- Central train station
- University of Sydney
- Redfern train station
- Newtown Entertainment Precinct



# William Square, 235 William Street, Northbridge WA

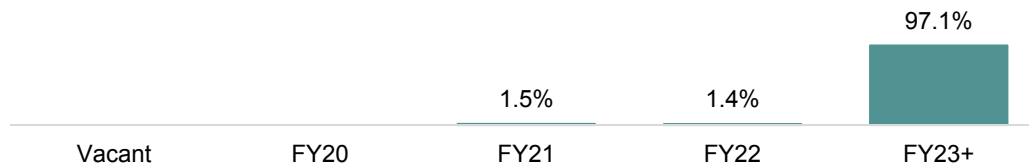


Ownership	100%
Purchase price	\$189.5m
Capitalisation rate	6.4%
Occupancy (by area)	100%
WALE <sup>1</sup>	7.7 years
NLA	21,765 sqm
Site area	6,767 sqm
NABERs rating	5.0 Star NABERs Energy

## Key characteristics

- A-grade office building completed in 1992 with approximately \$25 million spent in a recent refurbishment, including all building services
- The asset comprises five upper office levels with floorplates ranging from ~3,400–4,100 sqm; ground level lobby and retail suites; and basement level parking (128 cars)
- The asset features one of the largest floor plates in Perth and is ideally suited for Government occupiers (79% of income) who desire large and efficient floorplates

## Lease expiry profile<sup>1</sup>



## Major tenants

Tenant	NLA (sqm)	Gross income	% of income	Rent review	Lease expiry
Federal Government	13,512	\$10.2m	67%	3.00%	Jan-24
WeWork Inc	3,542	\$2.1m	14%	3.25%	Nov-34
State Government (WA)	3,413	\$1.9m	13%	3.00%	Mar-33

1. By gross income



# William Square, 235 William Street, Northbridge WA (cont'd)

## Location

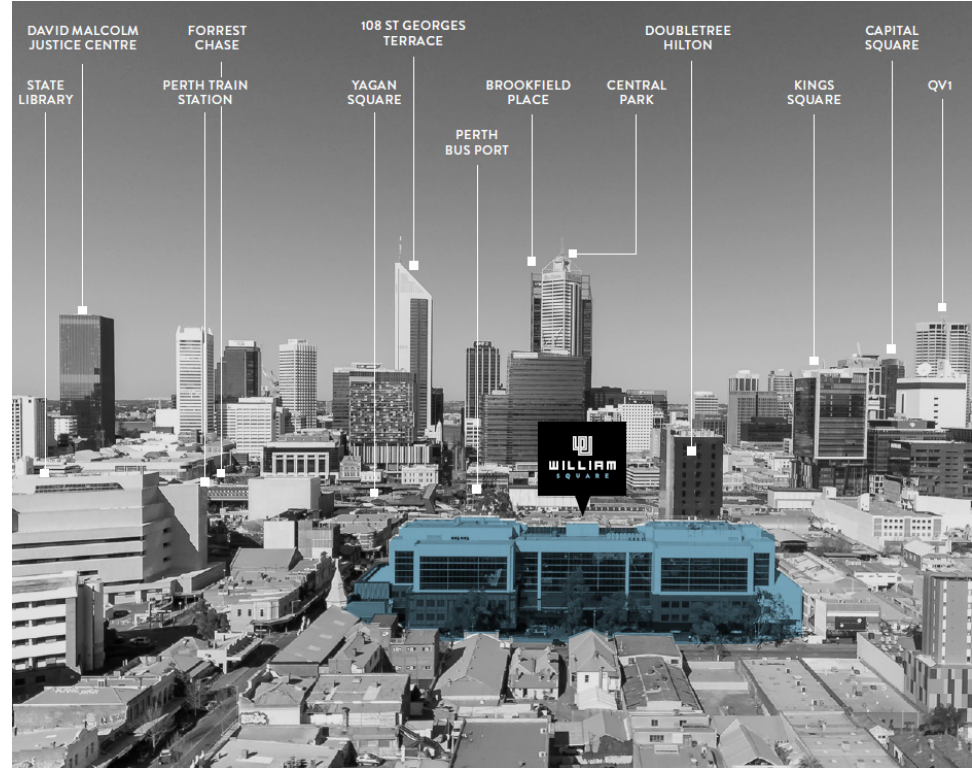
- Centrally located just north of Perth's CBD, approximately 350 metres from Perth bus and train interchange
- The asset features a substantial corner site, surrounded by the significant amenity of Northbridge, including a number of new hotels and retail offerings which improve the appeal to tenants
- The area is subject to approximately \$6 billion of Government and private investment, with access to the Perth CBD enhanced by sinking the railway line which acted as an artificial barrier



### ● Williams Square, Northbridge

- 144 Stirling Street, Perth (existing CMA asset)
- 42-46 Colin Street, West Perth (existing CMA asset)

- A Perth CBD
- B Perth train station / bus port

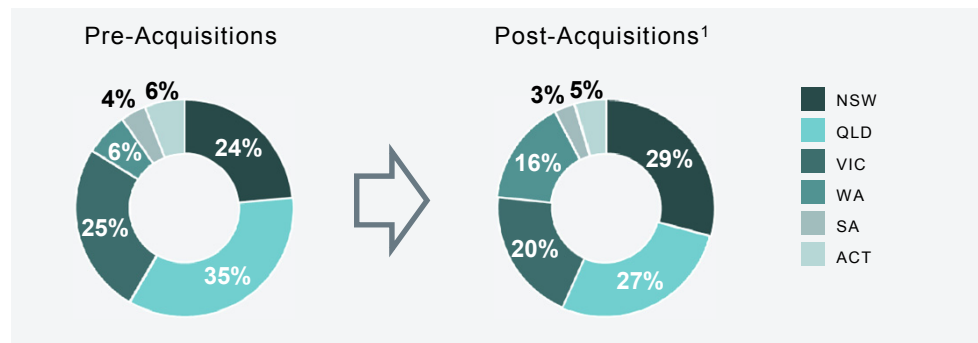


# Enhanced portfolio scale and WALE

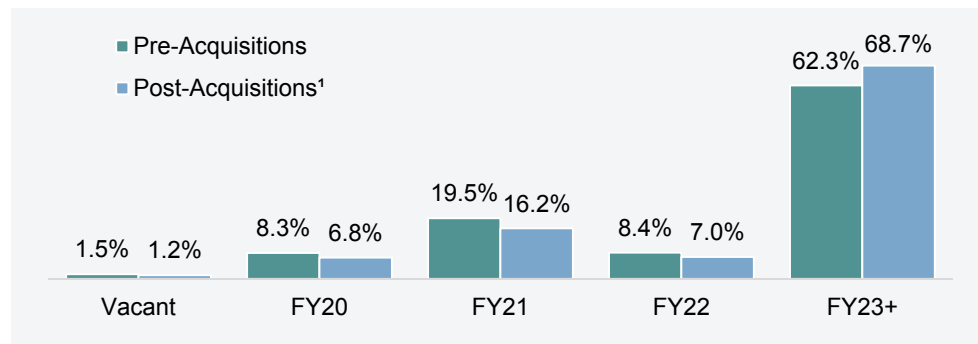
Portfolio snapshot	Pre-Acquisitions	Post-Acquisitions <sup>1</sup>
Number of assets	20	22
Portfolio value	\$1,400m	\$1,780m
Weighted average capitalisation rate	6.22%	6.15%
NLA <sup>2</sup>	218,080 sqm	276,415 sqm
Occupancy <sup>3</sup>	98.4%	98.7%
WALE <sup>4</sup>	3.9 years	4.8 years
Average NABERS Energy rating <sup>5</sup>	4.5 Stars	4.6 Stars
Average building age <sup>5</sup>	15.9 years	16.3 years

1. Assumes the acquisition of 8 Central Avenue proceeds
2. 100% of NLA
3. By area
4. By gross income
5. By portfolio value

## Geographic diversification<sup>5</sup>

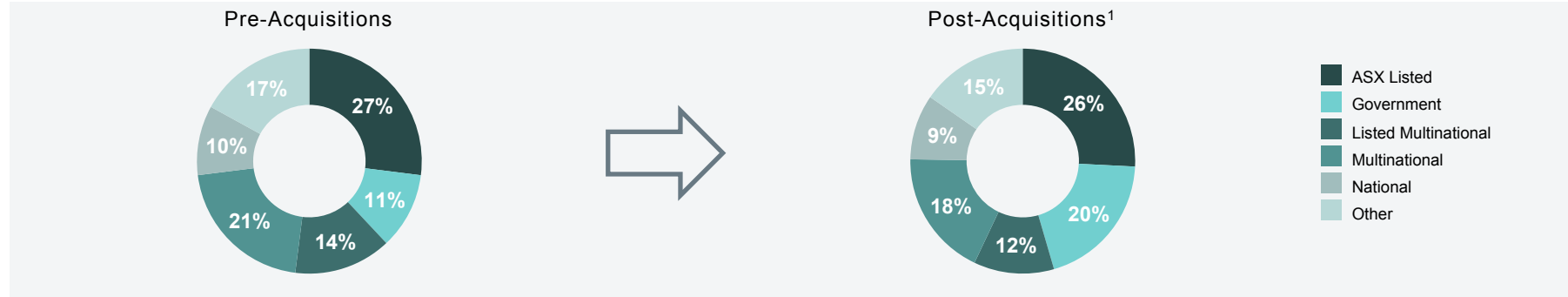


## Lease expiry profile<sup>4</sup>

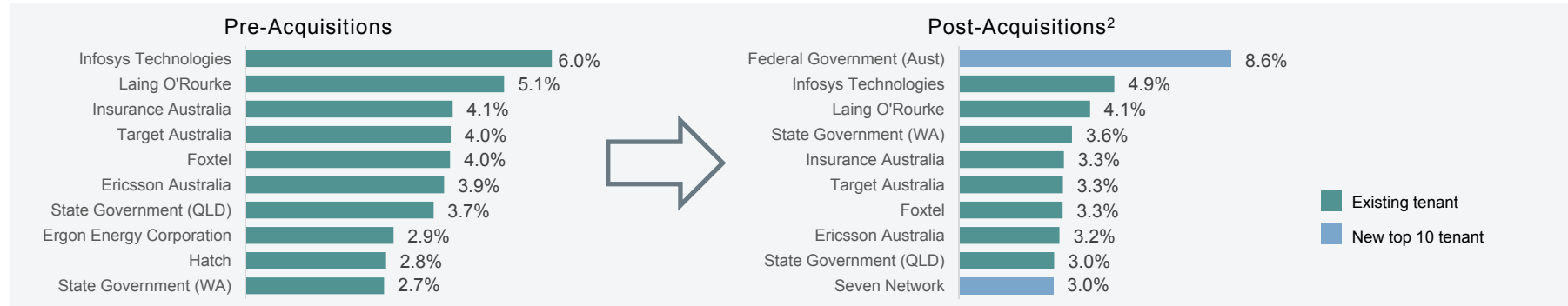


# Improved tenant quality and diversification

## Tenant mix<sup>1</sup>



## Top 10 tenants<sup>1</sup>



1. By gross income

2. Assumes the acquisition of 8 Central Avenue proceeds

## Sources and uses of proceeds

Sources of proceeds	\$m
Entitlement Offer proceeds	101.9
Institutional Placement proceeds	140.6
Conditional Placement proceeds	30.0
Drawn debt	142.1
<b>Total sources</b>	<b>414.6</b>

Uses of proceeds	\$m
Acquisitions	380.5
Stamp duty	20.3
Other transaction costs	7.0
Capital management	6.8
<b>Total uses</b>	<b>414.6</b>

- The Equity Raising is expected to raise \$273 million, comprising:
  - \$243 million of proceeds from the Entitlement Offer and Institutional Placement
  - \$30 million of proceeds from the Conditional Placement, which is subject to CMA securityholder approval
- In addition to the Equity Raising, the Acquisitions and associated transaction costs will be funded with additional drawn debt
  - Existing debt facilities will be increased by \$150 million, taking the total debt facility limit to \$705 million
- \$100m of swaps will be terminated at a cost of \$6.8 million, with new swaps to be entered into upon settlement of the Acquisitions
- Pro forma gearing is forecast to be 34.9%<sup>1</sup>, assuming the acquisition of 8 Central Avenue and the Conditional Placement proceed
  - If these do not proceed, CMA expects pro forma gearing to be 28.3%
  - Following the budgeted divestment of 483-517 Kingsford Smith Drive, Hamilton QLD, pro forma gearing is forecast to reduce to approximately 32%<sup>2</sup>

1. As at 30 June 2019 adjusted for the impact of the Acquisitions and Equity Raising  
 2. Assumes 483-517 Kingsford Smith Drive, Hamilton, QLD is sold for the current book value



# Equity raising details

	<b>Equity raising structure</b>	<ul style="list-style-type: none"> <li>• \$273 million Equity Raising, comprising:             <ul style="list-style-type: none"> <li>– An underwritten 1 for 10 accelerated non-renounceable entitlement offer to raise \$102 million</li> <li>– An underwritten institutional placement to raise \$141 million</li> <li>– A Conditional Placement of \$30 million to CNI, which is subject to CMA securityholder approval</li> </ul> </li> </ul>
	<b>Pricing</b>	<ul style="list-style-type: none"> <li>• Fixed issue price of \$2.86 per security, representing a:             <ul style="list-style-type: none"> <li>– 3.2% discount to the distribution-adjusted last close price of \$2.96 on 17 September 2019<sup>1</sup></li> <li>– 4.0% discount to the distribution-adjusted 5 day VWAP of \$2.98 on 17 September 2019<sup>2</sup></li> <li>– 6.6% FY20 forecast FFO yield</li> <li>– 6.2% FY20 forecast distribution yield</li> </ul> </li> </ul>
	<b>Ranking</b>	<ul style="list-style-type: none"> <li>• New securities issued under the Equity Raising will rank equally with existing CMA securities from the date of issue, however as they are issued after the distribution record date, new securities will not be entitled to the distribution for the quarter ending 30 September 2019 of 4.45 cps</li> </ul>
	<b>Underwriting</b>	<ul style="list-style-type: none"> <li>• The Entitlement Offer and the Institutional Placement are fully underwritten</li> <li>• The Conditional Placement is not underwritten</li> </ul>
	<b>Major securityholder intentions</b>	<ul style="list-style-type: none"> <li>• CNI, CMA's largest securityholder, has committed to take up \$37.5 million under the Equity Raising, comprising \$30.0 million under the Conditional Placement and \$7.5 million in the Entitlement Offer</li> </ul>

1. Based on the last close price of \$3.00 on 17 September 2019 adjusted for the distribution for the quarter ending 30 September 2019 of 4.45 cps  
 2. Based on the 5 day VWAP of \$3.02 on 17 September 2019 adjusted for the distribution for the quarter ending 30 September 2019 of 4.45 cps

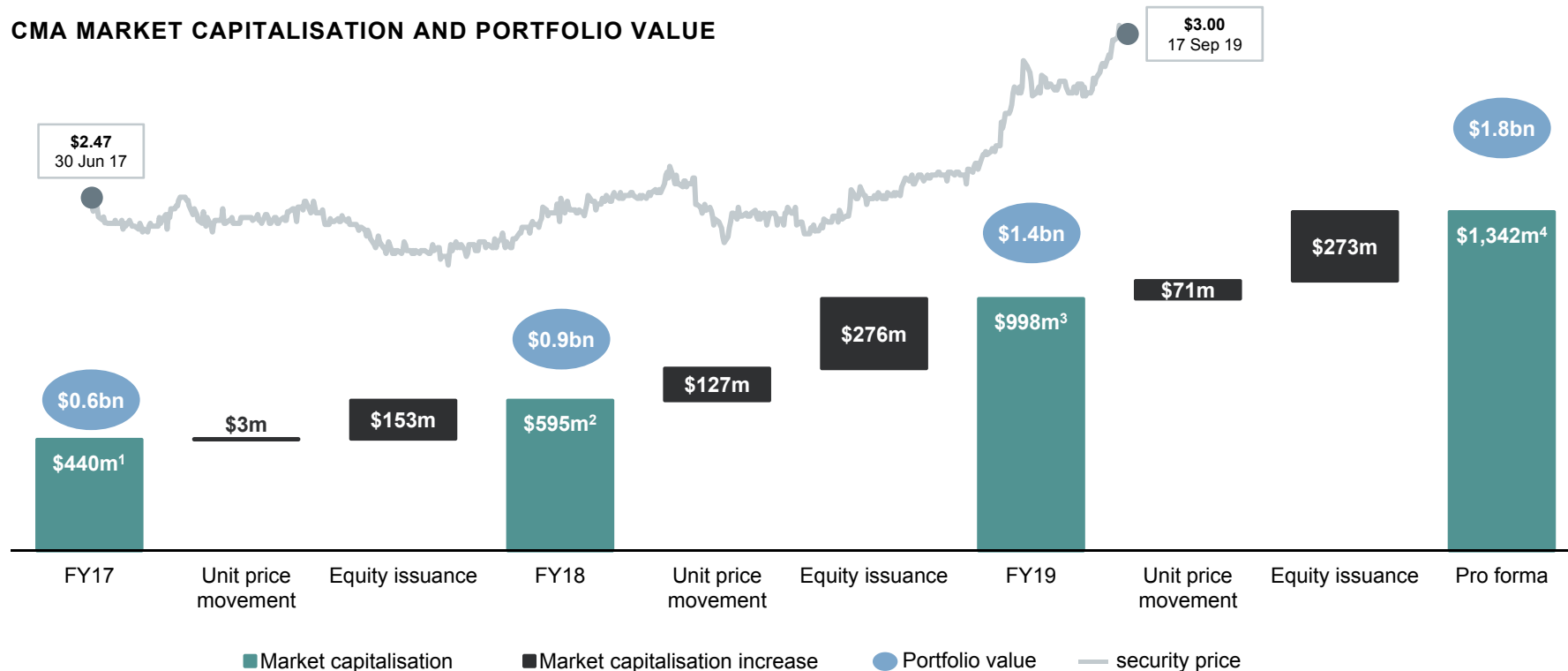
# Indicative timetable

Key event	Date (2019) <sup>1</sup>
Trading halt and announcement of the Acquisitions and Equity Raising	Wednesday, 18 September
Institutional Placement and institutional Entitlement Offer opens and closes	Wednesday, 18 September
Trading re-commences on an ex-entitlement basis	Thursday, 19 September
Record date for Entitlement Offer	Friday, 20 September
Retail Entitlement Offer opens	9.00am Tuesday, 24 September
Early retail acceptances due date	5.00pm Monday, 30 September
Settlement of the Institutional Placement, institutional Entitlement Offer and early retail Entitlement Offer	Tuesday, 1 October
Allotment and ASX quotation of securities issued under Institutional Placement, institutional Entitlement Offer and early retail Entitlement Offer	Wednesday, 2 October
Retail Entitlement Offer closes	5.00pm Tuesday, 8 October
Final settlement of the retail Entitlement Offer	Monday, 14 October
Allotment of the retail Entitlement Offer securities	Tuesday, 15 October
ASX quotation of the retail Entitlement Offer securities and despatch of holding statements	Wednesday, 16 October
Meeting of CMA securityholders and Centuria 8 Central Ave Fund unitholders	Tuesday, 29 October
Settlement of the Conditional Placement	Wednesday, 30 October
Allotment and ASX quotation of the Conditional Placement	Thursday, 31 October

1. All dates and times are indicative only and subject to change. Unless otherwise specified, all times and dates refer to Sydney time. Any changes to the timetable will be posted on CMA's website at [www.centuria.com.au](http://www.centuria.com.au)

# Increasing investor relevance and scale

## CMA MARKET CAPITALISATION AND PORTFOLIO VALUE



1. Based on adjusted CMA closing price of \$2.47 per security at 30 June 2017
2. Based on adjusted CMA closing price of \$2.45 per security at 30 June 2018
3. Based on CMA closing price of \$2.80 per security at 30 June 2019
4. Based on CMA's market capitalisation of \$1,069 million on 17 September 2019 adjusted for the Equity Raising of \$273 million

# Australia's largest pure play office REIT

**22**High quality assets<sup>1</sup>**\$1.8bn**Portfolio value<sup>1</sup>**98.7%**Occupancy<sup>1,2</sup>**4.8 years**Portfolio WALE<sup>1,3</sup>**34.9%**Pro forma gearing<sup>1,4</sup>**\$2.51**Pro forma NTA<sup>1</sup>**\$1.34bn**Market capitalisation<sup>1,5</sup>**6.6%**FY20 FFO yield<sup>6</sup>

1. Assumes the acquisition of 8 Central Avenue proceeds
2. By area
3. By gross income
4. Gearing is defined as interest bearing liabilities less cash divided by total assets less cash and goodwill
5. Calculation based on CMA's market capitalisation of \$1,069 million on 17 September 2019 adjusted for the Equity Raising of \$273 million
6. Based on FY20 FFO guidance of 19.0 cps and the issue price of \$2.86



APPENDIX A

# Pro forma balance sheet



Photo: 8 Central Avenue, Eveleigh NSW

# Pro forma balance sheet

\$m	30 June 2019 (Audited)	William Square acquisition, Institutional Placement & Entitlement Offer	Capital management	30 June 2019 (pro forma)	8 Central Avenue acquisition & Conditional Placement	30 June 2019 (conditional pro forma)
<b>Assets</b>						
Cash	17.5			17.5		17.5
Investment properties	1,321.5	189.5		1,511.0	191.0	1,702.0
Investment properties held for sale	78.5			78.5		78.5
Goodwill	6.4			6.4		6.4
Other assets	5.5			5.5		5.5
<b>Total assets</b>	<b>1,429.4</b>	<b>189.5</b>	<b>-</b>	<b>1,618.9</b>	<b>191.0</b>	<b>1,809.9</b>
<b>Liabilities</b>						
Interest bearing liabilities <sup>1</sup>	497.2	(36.2)	6.8	467.8	171.5	639.3
Derivative liabilities	7.2		(5.4)	1.8		1.8
Other liabilities	30.5			30.5		30.5
<b>Total liabilities</b>	<b>534.9</b>	<b>(36.2)</b>	<b>1.4</b>	<b>500.1</b>	<b>171.5</b>	<b>671.6</b>
<b>Net assets</b>	<b>894.6</b>	<b>225.7</b>	<b>(1.4)</b>	<b>1,118.8</b>	<b>19.5</b>	<b>1,138.3</b>
<b>Net tangible assets</b>	<b>888.2</b>	<b>225.7</b>	<b>(1.4)</b>	<b>1,112.5</b>	<b>19.5</b>	<b>1,132.0</b>
Securities on issue	356.3	84.8		441.1	10.5	451.6
<b>Net tangible assets per security (\$)</b>	<b>2.49</b>			<b>2.52</b>		<b>2.51</b>
Gearing <sup>2</sup>	34.2%			28.3%		34.9%

CMA has commenced a marketing campaign to divest 483-517 Kingsford Smith Drive, Hamilton QLD.  
Post the divestment, CMA's pro forma gearing is forecast to reduce to approximately 32%<sup>3</sup>

1. Drawn debt net of unamortised borrowing costs
2. Gearing is defined as interest bearing liabilities less cash divided by total assets less cash and goodwill
3. Assumes 483-517 Kingsford Smith Drive, Hamilton, QLD is sold for the current book value

## APPENDIX B

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# Key risks



Photo: William Square, 235 William Street, Northbridge WA

# Key risks

## Acquisition risks

The Acquisitions are subject to a number of completion conditions. In particular, the acquisition of 8 Central Avenue is subject to approval of the acquisition from CMA securityholders via an ordinary resolution and approval from Centuria 8 Central Ave Fund unitholders via a special resolution, pursuant to the listing rules and the Corporations Act.

In respect of each Acquisition, if one or more of the completion conditions are not satisfied or waived, the acquisition will not proceed. If the acquisition of 8 Central Avenue does not proceed, Securities will not be issued under the Conditional Placement.

Additionally, there is no guarantee that CMA will be able to complete all current or future acquisitions. To the extent that the Acquisitions or any future acquisitions are not successfully integrated with CMA's existing business, the financial performance of CMA could be materially adversely affected.

There is also a risk that CMA will be unable to identify future acquisition opportunities that meet its investment objectives, or if such acquisitions are identified, that they can be acquired on appropriate terms, thereby potentially limiting the growth of CMA and its funds management business. Any failure to identify appropriate assets or successfully acquire such assets could materially adversely effect the growth prospects and financial performance of CMA. While it is CMA's policy to conduct a thorough due diligence process in relation to any such acquisition, risks remain that are inherent in such acquisitions.

## Conditional Placement risk:

The Conditional Placement is conditional on obtaining approval of the placement from CMA securityholders via an ordinary resolution, pursuant to the ASX Listing Rules. If CMA is unable to obtain the required approval from its securityholders, the Conditional Placement will not proceed and New Securities under the Conditional Placement will not be issued to CNI.

## Underwriting risk

CPFL as responsible entity of CMA has entered into an underwriting agreement with the Underwriters for the Equity Raising (other than in respect of the commitments received from certain Centuria entities) (Underwriting Agreement). The Underwriters' obligation to underwrite the Equity Raising is subject to customary terms and conditions, including termination rights for the Underwriters in specific circumstances.

If the Underwriters are entitled to, and do, terminate the Underwriting Agreement and CMA is not otherwise able to raise the full \$273 million equity capital required, it would not be able to complete the Acquisitions, which would be likely to materially and adversely affect CMA's financial position and the market price for CMA securities.

## Capital expenditure risk

CMA is responsible for capital repairs at its properties (including at its properties where it has a leasehold interest). CMA may incur capital expenditure costs for unforeseen structural problems arising from a defect in a property or alterations required due to changes in statutory and compliance requirements (such as changes to environmental, building or safety regulations and standards). Over time, capital expenditure will be required to maintain the properties, and also to improve the properties or to install market-standard equipment, technologies and systems to retain and attract tenants. There is a risk that this capital expenditure could exceed the expenditure forecasted which may result in increased funding costs, lower distributions and property valuation write-downs.

The facades of certain properties within CMA's portfolio, including each of the Acquisition properties, contain an element of aluminium composite panelling (ACP). CMA has engaged external consultants to review the level of fire risk and the proposed cost for remediation works to reduce the level of fire risk which has been included in the capital expenditure budgets. There is a risk that changes in building and safety regulations and standards could result in additional capital expenditure in relation to the panelling.

In particular, CMA has formed the view that ACP at 8 Central Avenue needs to be completely replaced and has accordingly negotiated an adjustment to the purchase price for the budgeted cost of the ACP replacement.



# Key risks (cont'd)

## General economic conditions

CMA's financial performance, and the market price of CMA securities, is influenced by a variety of general economic and business conditions, including the level of inflation, interest rates, exchange rates, commodity prices, ability to access funding, oversupply and demand conditions, government fiscal, monetary and regulatory policy changes in gross domestic product and economic growth, employment levels and consumer spending, consumer and investment sentiment and property market volatility. Prolonged deterioration in any or all of these conditions, an increase in the cost of capital or a decrease in consumer demand, could have a materially adverse impact on CMA's financial performance.

## Inflation

Higher than expected inflation rates generally or specific to the property sector could be expected to increase operating costs.

## Litigation and disputes

Disputes or litigation may arise from time to time in the course of business activities. There is a risk that material or costly disputes or litigation could adversely affect financial performance and the value of CMA securities.

## Occupational health and safety

CMA is subject to laws and regulations governing health and safety matters.

Failure to comply with the necessary occupational health and safety requirements across the jurisdictions in which CMA operates could result in fines, penalties and compensation for damages as well as reputational damage.

## Market risks

Investors should be aware that the market price of CMA securities and the future distributions made to CMA securityholders may be influenced by a number of factors that are common to most listed investments, some of which are beyond CMA's control. At any point in time, these may include:

- the Australian and international economic outlook;
- movements in the general level of prices on international and local equity and credit markets;
- changes in economic conditions including inflation, recessions and interest rates;
- changes in market regulators' policies and practice in relation to regulatory legislation;
- changes in government fiscal, monetary and regulatory policies; and
- the demand for CMA securities.

The market price of CMA securities may therefore not reflect the underlying NTA of CMA.

# Key risks (cont'd)

## Other factors

Other factors that may affect CMA's performance include changes or disruptions to political, regulatory, legal or economic conditions or to the national or international financial markets including as a result of terrorist attacks or war.

## Leasing terms and tenant defaults

The future financial performance of CMA will largely depend on its ability to lease properties that become vacant on expiry of leases, on economically favourable terms. Insolvency or financial distress of any of the tenants may reduce the income received from the assets.

## Liquidity of property investments

The nature of investments in property assets may make it difficult to generate liquidity in the short term if there is a need to respond to changes in economic or other conditions.

## Asset values

Asset values are affected by many factors including prevailing market conditions, risk appetite, volume of sales, the ability to procure tenants, contracted rental returns, operating, maintenance and refurbishment expenses and the funding environment. Asset value declines may increase gearing levels and their proximity to covenant limits.

## Counterparty/Credit risk

CMA is exposed to the risk that third parties, such as tenants, developers, service providers and counterparties to other contracts may not be willing or able to perform their obligations.

## Fixed nature of costs

Many costs associated with the ownership and management of property assets are fixed in nature. The value of assets may reduce if the income from the asset declines and these fixed costs remain unchanged.

## Insurance

CMA purchases insurance, customarily carried by property owners, managers, developers and construction entities, which provides a degree of protection for its assets, liabilities and people. Such policies include material damage of assets, contract works, business interruption, general and professional liability and workers compensation. There are however certain risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake).

CMA also faces risk associated with the financial strength of its insurers to meet indemnity obligations when called upon, which could reduce earnings.

## Force majeure risk

There are some events that are beyond the control of CMA or any other party, including acts of God, fires, floods, earthquakes, wars, strikes and acts of terrorism. Some force majeure risks are effectively uninsurable, and if such events occur they may have materially adverse effects on CMA.

# Key risks (cont'd)

## Regulatory issues and changes in law

CMA is exposed to the risk that there may be changes in laws that negatively affect financial performance (such as by directly or indirectly reducing income or increasing costs).

## Competition

CMA faces competition from within the A-REIT sector, and also operates with the threat of new competition entering the market. The existence of such competition may have an adverse impact on CMA's ability to secure tenants for its properties at satisfactory rental rates and on a timely basis, or the pricing of construction projects or development opportunities, which in turn may negatively affect CMA's financial performance and returns to its investors.

## Environmental

A-REITs are exposed to a range of environmental risks, which may result in project delays or additional expenditure. In such situations, they may be required to undertake remedial works and potentially be exposed to third party liability claims and/or environmental liabilities such as penalties or fines.

## Returns from investment

Returns from property investment assets largely depend on the rental income generated from the property and the expenses incurred in the operation of that property, including the management and maintenance of the property as well as the changes in the market value of the property. Factors that may reduce these returns include:

- the overall conditions in the national and local economy, such as changes to growth in gross domestic product, employment, inflation and interest rates;
- local real estate conditions, such as changes in the demand and supply for retail, office, industrial or hotel/tourism assets or rental space;
- the perception of prospective tenants regarding attractiveness and convenience of assets;
- the convenience and quality of properties;
- changes in tenancy laws;
- external factors including war, terrorist or force majeure events;
- unforeseen capital expenditure;
- supply of new properties and other investment assets; and
- investor demand/liquidity in investments.

## APPENDIX C

# International offer restrictions



Photo: 8 Central Avenue, Eveleigh NSW

# International offer restrictions

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- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

# International offer restrictions (cont'd)

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